



eDumbe Local Municipality (KZN261)
Annual Financial Statements
for the year ended 30 June 2020

eDumbe Local Municipality (KZN261)

Annual Financial Statements for the year ended 30 June 2020

General Information

Legal form of entity	Municipality
Nature of business and principal activities	The main purpose of the municipality is to engage in local governance activities, which include planning and promotion of integrated development planning, economic and environmental development and provision of services to the community. The municipality provides services such electricity, refuse and other public services.
Mayoral committee	
Honourable Mayor	SJ Kunene
Deputy Mayor	ND Ndlangamandla
Speaker	ST Hlatshwayo
Chairperson: MPAC	HH Vilakazi
Members of Exco	ND Sibiya
Councillors	RC Gevers
	JDvR Lourens
	JB Mthethwa
	MS Zulu
	B Shabalala
	DF Sukazi
	ND Mngomezulu
	DD Maseko
	MSE Mbokazi
	DP Masondo
	ZP Mtetwa
Accounting officer	S Cele (acting)
Finance manager	S Sibiya
Business address	10 Hoog Street Paulpietersburg 3180
Postal address	Private Bag X308 Paulpietersburg 3180
Bankers	First National Bank
Auditors	Auditor-General of South Africa (AGSA)

eDumbe Local Municipality (KZN261)

Annual Financial Statements for the year ended 30 June 2020

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the management sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The annual financial statements set out on page 4, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on its behalf by:

Accounting Officer
Mr S Cele (acting)

eDumbe Local Municipality (KZN261)

Annual Financial Statements for the year ended 30 June 2020

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2020.

1. Review of activities

Main business and operations

The municipality is engaged in the main purpose of the municipality is to engage in local governance activities, which include planning and promotion of integrated development planning, economic and environmental development and provision of services to the community.

the municipality provides services such electricity, refuse and other public services. and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net surplus of the municipality was R 41 462 696 (2019: surplus R 53 537 887).

2. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus (deficit) of R 366 547 440 and that the municipality's total assets exceed its liabilities by R 366 647 788.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

5. Auditors

Auditor-General of South Africa (AGSA) will continue in office for the next financial period.

The annual financial statements set out on page 4, which have been prepared on the going concern basis, were approved by the on 31 October 2020 and were signed on its behalf by:

Accounting Officer
Mr S Cele (acting)

eDumbe Local Municipality (KZN261)

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note	2020	2019
Assets			
Current Assets			
Inventories	3	93 317	95 884
Receivables from exchange transactions	4	15 366 665	11 330 977
Receivables from non-exchange transactions	4	26 923 667	17 036 818
Other receivables from exchange transactions	5	1 786 210	1 808 622
Other receivables from non-exchange transactions	6	1 822 142	1 422 512
VAT receivable	7	671	1 336 910
Cash and cash equivalents	8	25 038 357	3 070 476
		71 031 029	36 102 199
Non-Current Assets			
Investment property	9	16 600 000	16 600 000
Property, plant and equipment	10	326 799 045	314 586 161
Intangible assets	11	19 920	28 269
Heritage assets	12	147 149	147 149
		343 566 114	331 361 579
Total Assets		414 597 143	367 463 778
Liabilities			
Current Liabilities			
Payables from exchange transactions	13	19 239 774	23 106 883
Consumer deposits	14	237 774	237 774
Unspent conditional grants and receipts	15	14 740 424	1 040 057
Current portion of long-term liability	16	51 800	61 800
		34 269 772	24 446 514
Non-Current Liabilities			
Employee benefit obligation	16	9 348 000	8 537 000
Provisions: landfill sites	17	4 331 585	9 295 172
		13 679 585	17 832 172
Total Liabilities		47 949 357	42 278 686
Net Assets		366 647 786	325 185 092
Reserves			
Housing development fund	18	100 348	100 348
Accumulated surplus		366 547 440	325 084 744
Total Net Assets		366 647 788	325 185 092

eDumbe Local Municipality (KZN261)

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Performance

Figures in Rand	Note	2020	2019
Revenue			
Revenue from exchange transactions			
Service charges	19	20 520 478	27 405 869
Rental of facilities and equipment	20	1 427 164	1 175 814
Licences and permits	21	651 599	843 218
Interest received	22	6 107 638	1 183 533
Other income	23	660 992	690 060
Fair value adjustments	24	-	5 603 214
Actuarial gains		341 667	1 126 000
Total revenue from exchange transactions		29 709 538	38 027 708
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	19 206 455	19 214 143
Interest received (non-exchange)	25	13 739 675	7 573 866
Transfer revenue			
Government grants and subsidies	26	121 227 633	125 388 001
Fines	27	1 379 400	2 057 700
Total revenue from non-exchange transactions		155 553 163	154 233 710
Total revenue		185 262 701	192 261 418
Expenditure			
Employee related costs	28	(57 425 100)	(49 332 054)
Remuneration of councillors	29	(6 721 886)	(5 973 202)
Depreciation and amortisation	30	(13 381 947)	(12 370 908)
Impairment losses	31	(9 099 306)	(6 769 441)
Finance costs	32	3 725 464	(2 304 524)
Debt Impairment	33	(7 022 892)	(12 105 773)
Bulk purchases	34	(26 249 984)	(22 142 906)
Lease rentals on operating lease	35	(691 982)	(305 989)
Contracted services	36	(11 970 509)	(18 701 780)
General expenses	37	(14 961 863)	(8 716 954)
Total expenditure		(143 800 005)	(138 723 531)
Surplus for the year		41 462 696	53 537 887

eDumbe Local Municipality (KZN261)

Annual Financial Statements for the year ended 30 June 2020

Statement of Changes in Net Assets

Figures in Rand	Housing development fund	Accumulated surplus	Total net assets
Opening balance as previously reported	100 348	263 478 957	263 579 305
Adjustments			
Prior year adjustments (note 44)	-	772 362	772 362
Balance at 01 July 2018 as restated*	100 348	264 251 319	264 351 667
Changes in net assets			
Surplus for the year	-	53 537 887	53 537 887
Other	-	7 295 538	7 295 538
Total changes	-	60 833 425	60 833 425
Balance at 01 July 2019	100 348	325 084 744	325 185 092
Changes in net assets			
Surplus for the year	-	41 462 696	41 462 696
Total changes	-	41 462 696	41 462 696
Balance at 30 June 2020	100 348	366 547 440	366 647 788
Note	18		

eDumbe Local Municipality (KZN261)

Annual Financial Statements for the year ended 30 June 2020

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019
Cash flows from operating activities			
Receipts			
Sale of goods and services		41 534 023	65 580 276
Grants and subsidies received		134 928 000	125 388 000
Interest income		1 341 574	1 183 533
		<u>177 803 597</u>	<u>192 151 809</u>
Payments			
Employee costs		(62 301 395)	(48 836 147)
Suppliers		(59 203 002)	(102 825 001)
Finance costs		(1 238 123)	(911 164)
Other payments		-	(5 973 203)
		<u>(122 742 520)</u>	<u>(158 545 515)</u>
Net cash flows from operating activities	39	<u>55 061 077</u>	<u>33 606 294</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(34 293 196)	(40 553 556)
Proceeds from sale of property, plant and equipment	10	1 200 000	-
Purchase of other intangible assets	11	-	(26 023)
Net cash flows from investing activities		<u>(33 093 196)</u>	<u>(40 579 579)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		-	5 450
Net cash flows from financing activities		<u>-</u>	<u>5 450</u>
Net increase/(decrease) in cash and cash equivalents		21 967 881	(6 967 835)
Cash and cash equivalents at the beginning of the year		3 070 476	10 038 311
Cash and cash equivalents at the end of the year	8	<u>25 038 357</u>	<u>3 070 476</u>

eDumbe Local Municipality (KZN261)

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	31 135 000	-	31 135 000	20 520 478	(10 614 522)	Note 51
Rental of facilities and equipment	1 772 000	-	1 772 000	1 427 164	(344 836)	Note 51
Licences and permits	1 011 000	-	1 011 000	651 599	(359 401)	Note 51
Other income	575 000	-	575 000	660 992	85 992	
Interest received - investment	1 060 000	-	1 060 000	6 107 638	5 047 638	Note 51
Gains on disposal of assets	2 000 000	-	2 000 000	-	(2 000 000)	Note 51
Total revenue from exchange transactions	37 553 000	-	37 553 000	29 367 871	(8 185 129)	

Revenue from non-exchange transactions

Taxation revenue

Property rates	21 532 000	-	21 532 000	19 206 455	(2 325 545)	Note 51
Property rates - penalties imposed	-	-	-	13 739 675	13 739 675	Note 51

Transfer revenue

Government grants and subsidies	114 265 000	-	114 265 000	121 227 633	6 962 633	
Fines	3 000 000	-	3 000 000	1 379 400	(1 620 600)	Note 51

Total revenue from non-exchange transactions

Total revenue from non-exchange transactions	138 797 000	-	138 797 000	155 553 163	16 756 163	
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Total revenue	176 350 000	-	176 350 000	184 921 034	8 571 034	
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Expenditure

Personnel	(58 828 000)	-	(58 828 000)	(57 425 100)	1 402 900	
Remuneration of councillors	(5 629 000)	-	(5 629 000)	(6 721 886)	(1 092 886)	Note 51
Depreciation and amortisation	(10 000 000)	-	(10 000 000)	(13 381 947)	(3 381 947)	Note 51
Impairment loss	-	-	-	(9 099 306)	(9 099 306)	Note 51
Finance costs	(159 000)	-	(159 000)	3 725 464	3 884 464	Note 51
Lease rentals on operating lease	-	-	-	(691 982)	(691 982)	Note 51
Debt Impairment	(11 000 000)	-	(11 000 000)	(7 022 892)	3 977 108	Note 51
Other materials	(4 594 000)	(95 000)	(4 689 000)	-	4 689 000	Note 51
Bulk purchases	(21 850 000)	(2 750 000)	(24 600 000)	(26 249 984)	(1 649 984)	
Contracted Services	(18 183 000)	(4 601 000)	(22 784 000)	(11 970 509)	10 813 491	Note 51
General expenses	(13 982 000)	(1 349 000)	(15 331 000)	(14 961 863)	369 137	

Total expenditure	(144 225 000)	(8 795 000)	(153 020 000)	(143 800 005)	9 219 995	
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Operating surplus	32 125 000	(8 795 000)	23 330 000	41 121 029	17 791 029	
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Actuarial gains/losses	-	-	-	341 667	341 667	
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Surplus before taxation	32 125 000	(8 795 000)	23 330 000	41 462 696	18 132 696	
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eDumbe Local Municipality (KZN261)

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	136 000	-	136 000	93 317	(42 683)	
Other receivables from exchange transactions	-	-	-	1 786 210	1 786 210	
Other receivables from non-exchange transactions	-	-	-	1 822 142	1 822 142	
VAT receivable	-	-	-	671	671	Note 51
Consumer debtors	116 181 000	(22 336 000)	93 845 000	42 290 332	(51 554 668)	Note 51
Cash and cash equivalents	9 885 000	(3 124 000)	6 761 000	25 038 357	18 277 357	
	126 202 000	(25 460 000)	100 742 000	71 031 029	(29 710 971)	
Non-Current Assets						
Investment property	10 997 000	5 603 000	16 600 000	16 600 000	-	
Property, plant and equipment	289 184 000	87 870 000	377 054 000	326 799 045	(50 254 955)	Note 51
Intangible assets	111 000	-	111 000	19 920	(91 080)	
Heritage assets	-	-	-	147 149	147 149	Note 51
	300 292 000	93 473 000	393 765 000	343 566 114	(50 198 886)	
Total Assets	426 494 000	68 013 000	494 507 000	414 597 143	(79 909 857)	
Liabilities						
Current Liabilities						
Payables from exchange transactions	(15 213 000)	49 360 000	34 147 000	19 239 774	(14 907 226)	Note 51
Consumer deposits	219 000	-	219 000	237 774	18 774	
Current portion of long-term liability	-	-	-	51 800	51 800	
Unspent conditional grants and receipts	-	-	-	14 740 424	14 740 424	Note 51
Provisions: landfill sites	109 478 000	-	109 478 000	-	(109 478 000)	Note 51
	94 484 000	49 360 000	143 844 000	34 269 772	(109 574 228)	
Non-Current Liabilities						
Employee benefit obligations	-	-	-	9 348 000	9 348 000	Note 51
Provisions: landfill sites	-	-	-	4 331 585	4 331 585	Note 51
	-	-	-	13 679 585	13 679 585	
Total Liabilities	94 484 000	49 360 000	143 844 000	47 949 357	(95 894 643)	
Net Assets	332 010 000	18 653 000	350 663 000	366 647 786	15 984 786	
Net Assets						
Reserves						
Housing development fund	31 979 000	-	31 979 000	100 348	(31 878 652)	
Accumulated surplus	300 031 000	18 653 000	318 684 000	366 547 438	47 863 438	
Total Net Assets	332 010 000	18 653 000	350 663 000	366 647 786	15 984 786	

eDumbe Local Municipality (KZN261)

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						

Cash Flow Statement

Cash flows from operating activities

Receipts

Sale of goods and services	50 936 000	45 800 000	96 736 000	41 534 024	(55 201 976)	
Grants	113 543 000	181 208 000	294 751 000	134 928 000	(159 823 000)	
Interest income	1 060 000	1 060 000	2 120 000	1 341 574	(778 426)	
Other receipts	8 472 000	8 627 000	17 099 000	-	(17 099 000)	
	174 011 000	236 695 000	410 706 000	177 803 598	(232 902 402)	

Payments

Suppliers	(136 286 000)	(3 469 000)	(139 755 000)	(121 504 394)	18 250 606	
Finance costs	(159 000)	-	(159 000)	(1 238 123)	(1 079 123)	
Other payments	(1 171 000)	1 171 000	-	-	-	
	(137 616 000)	(2 298 000)	(139 914 000)	(122 742 517)	17 171 483	

Net cash flows from operating activities	36 395 000	234 397 000	270 792 000	55 061 081	(215 730 919)	
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Cash flows from investing activities

Purchase of property, plant and equipment	(45 453 000)	(99 990 000)	(145 443 000)	(34 293 198)	111 149 802	
Proceeds from sale of property, plant and equipment	2 000 000	-	2 000 000	1 200 000	(800 000)	

Net cash flows from investing activities	(43 453 000)	(99 990 000)	(143 443 000)	(33 093 198)	110 349 802	
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Net increase/(decrease) in cash and cash equivalents	(7 058 000)	134 407 000	127 349 000	21 967 883	(105 381 117)	Note 51
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Cash and cash equivalents at the beginning of the year	-	-	-	3 070 476	3 070 476	
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Cash and cash equivalents at the end of the year	(7 058 000)	134 407 000	127 349 000	25 038 359	(102 310 641)	
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eDumbe Local Municipality (KZN261)

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

Figures in Rand	Note(s)	2020	2019
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1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand (R), which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher if an asset's fair value less costs to sell and value in use.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Useful lives of property, plant and equipment

The municipality's management estimates the remaining useful lives and condition of significant items of property, plant and equipment on an annual basis. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a significant impairment of the respective asset.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

Other key assumptions for post retirement benefit obligations are based on current market conditions. Additional information is disclosed in Note 16.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition. The impairment is measured with reference to historical data and payment trend analysis per group consumers.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 9).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 9).

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Accounting Policies

1.5 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

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Accounting Policies

1.5 Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Infrastructure	Straight-line	
• Road structures - kerbing		50
• Road structures - base		50
• Road structures - surface		20
• Bridges		80
• Pedestrian malls		20 - 30
• Electricity		30 - 50
• Storm water		60
Community	Straight-line	
• Buildings		25
• Recreational facilities		25 - 30
Other property, plant and equipment	Straight-line	
• Buildings		25
• Vehicles		7
• Office equipment		5
• Furniture and fittings		7
• Other items of plant and equipment		3 - 10
• Landfill sites		25 - 55
• Leased assets		3 (period of lease)

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 10).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

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Accounting Policies

1.6 Intangible assets (continued)

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Straight-line	3 - 5

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11).

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Accounting Policies

1.7 Heritage assets (continued)

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

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Accounting Policies

1.8 Financial instruments (continued)

A financial asset is:

- cash;
- a residual interest in another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

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Accounting Policies

1.8 Financial instruments (continued)

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the .

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Accounting Policies

1.10 Inventories (continued)

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.13 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Accounting Policies

1.13 Employee benefits (continued)

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Accounting Policies

1.13 Employee benefits (continued)

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Accounting Policies

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Accounting Policies

1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of an activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 46.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Accounting Policies

1.14 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Accounting Policies

1.16 Revenue from exchange transactions (continued)

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight-line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

Revenue arising from the use by others of entity assets yielding interest or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

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Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality. The full amount of traffic fines issued during the year is recognised at the initial transaction date as revenue in accordance with iGRAP 1. Assessing and recognising impairment is an event that takes place subsequent to the initial recognition of revenue charged. The municipality assesses the probability of collecting revenue when accounts fall into arrears based on historical trends.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.21 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

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Accounting Policies

1.25 Budget information (continued)

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

1.26 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.27 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

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Accounting Policies

1.27 Events after reporting date (continued)

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.28 Value added tax (VAT)

The municipality accounts for VAT on the accrual basis in the annual financial statements. However, VAT is declared to the South African Revenue Services as input or output VAT only when payments are made to suppliers or payments are received for goods and services. The net difference of VAT payable / receivable on output VAT on receivables (where money has not been received) and input VAT on payables (accruals where payment has not been made) is disclosed in the statement of financial position.

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
2. New standards and interpretations		
2.1 Standards and interpretations issued, but not yet effective		
The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2020 or later periods:		
• Directive 14: The application of Standards of GRAP by Public Entities that apply IFRS® Standards	01 April 2021	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2020	Unlikely there will be a material impact
• IGRAP 20: Accounting for Adjustments to Revenue	01 April 2020	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact
• Directive 7 (revised): The Application of Deemed Cost	01 April 2020	Unlikely there will be a material impact
3. Inventories		
Consumables	93 317	95 884
4. Consumer debtors		
Gross balances		
Rates	47 865 882	48 182 782
Electricity	8 322 671	2 384 283
Refuse	92 529 776	87 006 562
	148 718 329	137 573 627
Less: Allowance for impairment		
Rates	(20 942 215)	(31 145 965)
Electricity	(3 618 667)	(1 835 738)
Refuse	(81 867 115)	(76 224 130)
	(106 427 997)	(109 205 833)
Net balance		
Rates	26 923 667	17 036 817
Electricity	4 704 004	548 545
Refuse	10 662 661	10 782 432
	42 290 332	28 367 794
Included in above is receivables from exchange transactions:		
Electricity	4 704 004	548 545
Refuse	10 662 661	10 782 432
	15 366 665	11 330 977
Included in above is receivables from non-exchange transactions:		
Rates	26 923 667	17 036 818
Net balance	42 290 332	28 367 795

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
4. Consumer debtors (continued)		
Rates		
Current (0 -30 days)	2 998 969	2 399 166
31 - 60 days	1 078 812	2 735 958
61 - 90 days	2 574 036	1 634 305
91 - 120 days	2 240 993	983 393
> 120 days	18 030 857	9 283 995
	26 923 667	17 036 817
Electricity		
Current (0 -30 days)	1 043 082	311 780
31 - 60 days	970 533	122 350
61 - 90 days	423 454	36 210
91 - 120 days	411 676	60 334
> 120 days	1 855 259	17 871
	4 704 004	548 545
Refuse		
Current (0 -30 days)	81 797	6 692 413
31 - 60 days	1 546 584	3 798 717
61 - 90 days	95 642	-
91 - 120 days	92 812	-
> 120 days	8 845 826	291 302
	10 662 661	10 782 432
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	1 710 263	1 450 068
31 - 60 days	1 624 418	2 920 806
61 - 90 days	1 699 221	2 763 495
91 - 120 days	1 680 740	3 059 255
> 120 days	110 773 587	102 549 231
	117 488 229	112 742 855
Less: Allowance for impairment	(113 053 229)	(109 205 833)
	4 435 000	3 537 022
Industrial/commercial		
Current (0 -30 days)	1 180 394	1 350 540
31 - 60 days	742 267	377 954
61 - 90 days	716 653	280 923
91 - 120 days	518 668	150 549
> 120 days	9 630 357	7 012 929
	12 788 339	9 172 895
Less: Allowance for impairment	(9 630 357)	-
	3 157 982	9 172 895
National and provincial government		
Current (0 -30 days)	1 233 141	1 265 362
31 - 60 days	1 228 945	578 314
61 - 90 days	677 257	571 370
91 - 120 days	545 872	326 524
> 120 days	14 755 990	12 916 307
	18 441 205	15 657 877

eDumbe Local Municipality (KZN261)

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
4. Consumer debtors (continued)		
Total		
Current (0 -30 days)	4 123 799	4 065 970
31 - 60 days	3 595 629	3 877 074
61 - 90 days	3 093 132	3 615 788
91 - 120 days	2 745 280	3 536 328
> 365 days	135 159 933	122 478 467
	<u>148 717 773</u>	<u>137 573 627</u>
Less: Allowance for impairment	(106 427 441)	(109 205 833)
	<u>42 290 332</u>	<u>28 367 794</u>
Less: Allowance for impairment		
> 90 days	(106 427 997)	(109 205 833)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(109 205 833)	(98 637 206)
Contributions to allowance	(8 328 315)	(10 568 627)
Debt impairment written off against allowance	11 106 151	-
	<u>(106 427 997)</u>	<u>(109 205 833)</u>

Consumer debtors pledged as security

None of the consumer debtors have been pledged as security for the municipality's financial liabilities.

None of the financial assets that are fully performing have been renegotiated in the last year.

Fair value of consumer debtors

The management of the municipality is of the opinion that the current value of the consumer debtors recorded at amortised cost in the financial statements approximate their fair value.

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2020, R 9 434 041 (2019: R 13 314 824) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	3 595 629	4 833 342
2 months past due	3 093 132	4 468 081
3 months past due	2 745 280	4 013 401

Consumer debtors impaired

As of 30 June 2020, consumer debtors of R 106 427 441 (2019: R 109 205 833) were impaired and provided for.

The amount of the provision was R 106 427 441 as of 30 June 2020 (2019: R 109 205 833).

The ageing of these debtors is as follows:

Over 3 months	106 427 441	109 205 833
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The provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

eDumbe Local Municipality (KZN261)

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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4. Consumer debtors (continued)

In determining the recoverability of receivables from exchange transactions, the municipality has placed strong emphasis on verifying the indigent status of consumers. The provision for impairment in respect of the receivables from exchange transactions have been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the provision for impairment. Refer to details in the accounting policy for further details.

5. Other receivables from exchange transactions

Other debtors	1 775 825	1 765 811
Council debt	10 385	42 811
	1 786 210	1 808 622

6. Other receivables from non-exchange transactions

Fines	1 822 142	1 422 512
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Other receivables from non-exchange transactions impaired

As of 30 June 2020, other receivables from non-exchange transactions of R 11 257 891 (2019: R 10 427 058) were impaired and provided for.

The ageing of these loans is as follows:

Over 6 months	11 257 891	10 427 058
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Reconciliation of provision for impairment of other receivables from non-exchange transactions

Opening balance	(10 427 058)	(3 657 618)
Provision for impairment	(830 833)	(6 769 440)
	(11 257 891)	(10 427 058)

7. VAT receivable

VAT	671	1 336 910
-----	-----	-----------

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	232	81
Bank balances	25 038 065	3 070 395
Other cash and cash equivalents	60	-
	25 038 357	3 070 476

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating

AAA	25 038 357	3 070 476
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eDumbe Local Municipality (KZN261)

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8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
First National Bank - Current account - Primary	1 594 990	1 431 110	2 797 358	1 594 990	1 175 120	2 797 358
First National Bank - Call account - 622196848746	129 982	124 847	120 622	129 982	124 847	120 622
First National Bank - Call account - 61328003233	3 422 281	1 207 035	1 599 859	3 422 281	1 207 035	1 599 859
First National Bank - Call account - 62033660376	16 507 896	104 980	2 261 903	16 507 896	104 980	2 261 903
First National Bank - Call account - 62421843807	3 365 145	441 650	3 242 759	3 365 145	441 650	3 242 759
Grinrod Bank - Investment account - 154009	17 771	16 761	15 728	17 771	16 761	15 728
Total	25 038 065	3 326 383	10 038 229	25 038 065	3 070 393	10 038 229

9. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	16 600 000	-	16 600 000	16 600 000	-	16 600 000

Reconciliation of investment property - 2020

	Opening balance	Total
Investment property	16 600 000	16 600 000

Reconciliation of investment property - 2019

	Opening balance	Fair value adjustments	Total
Investment property	10 996 786	5 603 214	16 600 000

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the revaluations was 30 June 2020. The valuations were performed by an independent valuer, Mr. Alan Robert Stephenson of Mills Fitcher Property Valuers. Mills Fitcher Property Valuers are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

eDumbe Local Municipality (KZN261)

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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9. Investment property (continued)

The following criteria was used to determine whether a property should be classified as investment property:

- A building owned by the municipality and leased out to third parties under one or more operating leases.
- Land currently held for undeterminable future use.
- Property being constructed or developed for future use as investment property.

No restrictions exist unless a property is being leased out to a third party.

Maintenance of investment property

No repairs and maintenance were incurred on investment properties during the financial year.

Under construction and contractual commitments

No investment property was under construction or incurred towards contractual commitments during the financial year.

10. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	30 179 257	-	30 179 257	31 379 257	-	31 379 257
Buildings	32 959 833	-	32 959 833	35 981 285	-	35 981 285
Infrastructure	227 328 282	(96 834 488)	130 493 794	175 066 567	(43 497 454)	131 569 113
Community	73 540 251	-	73 540 251	73 502 562	-	73 502 562
Other property, plant and equipment	21 581 251	(15 102 246)	6 479 005	16 770 147	(9 516 201)	7 253 946
Other property, plant and equipment # 1	53 146 905	-	53 146 905	34 899 998	-	34 899 998
Total	438 735 779	(111 936 734)	326 799 045	367 599 816	(53 013 655)	314 586 161

eDumbe Local Municipality (KZN261)

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Notes to the Annual Financial Statements

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10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	WIP transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	31 379 257	-	(1 200 000)	-	-	-	-	30 179 257
Buildings	35 981 285	-	-	-	-	(1 929 787)	(1 091 665)	32 959 833
Infrastructure	131 569 113	500 533	-	6 577 680	761 195	(5 768 816)	(3 145 911)	130 493 794
Community	73 502 562	-	-	7 265 098	-	(3 463 731)	(3 763 678)	73 540 251
Other property, plant and equipment	7 253 946	1 436 321	-	-	-	(2 211 262)	-	6 479 005
Work-in-progress	34 899 998	32 356 342	-	(13 842 778)	-	-	(266 657)	53 146 905
	314 586 161	34 293 196	(1 200 000)	-	761 195	(13 373 596)	(8 267 911)	326 799 045

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	WIP transfers	Other changes, movements	Depreciation	Total
Land	31 379 257	-	-	-	-	31 379 257
Buildings	38 011 012	-	-	-	(2 029 727)	35 981 285
Infrastructure	111 588 961	-	25 865 976	(118 908)	(5 766 916)	131 569 113
Community	53 958 019	-	21 962 424	-	(2 417 881)	73 502 562
Other property, plant and equipment	4 984 609	4 810 733	-	-	(2 541 396)	7 253 946
Work-in-progress	46 985 575	35 742 823	(47 828 400)	-	-	34 899 998
	286 907 433	40 553 556	-	(118 908)	(12 755 920)	314 586 161

Pledged as security

No property, plant or equipment has been pledged as security for any liabilities of the municipality.

eDumbe Local Municipality (KZN261)

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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10. Property, plant and equipment (continued)

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment:

Infrastructure	36 989 427	26 683 257
Community	16 157 479	8 216 741
	53 146 906	34 899 998

Reconciliation of work-in-progress 2020

	Included within infrastructure	Included within community	Total
Opening balance	26 683 257	8 216 741	34 899 998
Additions/capital expenditure	16 968 104	15 388 238	32 356 342
Impairment loss	(84 255)	(182 402)	(266 657)
Transferred to completed items	(6 577 680)	(7 265 098)	(13 842 778)
	36 989 426	16 157 479	53 146 905

Reconciliation of work-in-progress 2019

	Included within infrastructure	Included within community	Total
Opening balance	39 675 876	7 309 699	46 985 575
Additions/capital expenditure	12 873 357	22 869 466	35 742 823
Transferred to completed items	(25 865 976)	(21 962 424)	(47 828 400)
	26 683 257	8 216 741	34 899 998

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance:

Building	28 609	228 272
Equipment	2 936 383	1 656 102
Vehicles	1 864 185	579 841
	4 829 177	2 464 215

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Discount benefit scheme

The land situated in the eDumbe informal settlement was divided into 769 erven, each with each own title deed (excluding Place of Worship and business stands) and were disposed of to the citizens of eDumbe, as resolved by the Council (resolution 93 of 2000 taken at the Council meeting held on 29 August 2000).

The aforementioned 769 erven is still in the name of the municipality at the Title deeds office, but as effective control of the erven has already been transferred to the individual citizens, it has been accounted for as such.

eDumbe Local Municipality (KZN261)

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

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11. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	232 961	(213 041)	19 920	232 961	(204 692)	28 269

Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software	28 269	(8 349)	19 920

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Amortisation	Total
Computer software	7 106	26 023	(4 860)	28 269

Pledged as security

All of the municipality's intangible assets are held under freehold interest and no intangible assets have been pledged as security for any liabilities of the municipality.

12. Heritage assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayorial chain	147 149	-	147 149	147 149	-	147 149

Reconciliation of heritage assets 2020

	Opening balance	Total
Mayorial chain	147 149	147 149

Reconciliation of heritage assets 2019

	Opening balance	Total
Mayorial chain	147 149	147 149

eDumbe Local Municipality (KZN261)

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
13. Payables from exchange transactions		
Trade payables	8 721 287	12 990 287
Payments received in advanced - contract in process	593 557	495 131
Salary control accounts	2 400	37 232
Accrued leave pay	4 088 654	3 531 122
Accrued bonus	1 391 142	1 210 915
Other accrued expenses	-	1 297 551
Retentions	4 404 809	3 544 645
Miscellaneous	37 925	-
	19 239 774	23 106 883

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter the interest is charged in accordance with the credit of the various individual creditors that the municipality deals with.

The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe. received in advance is due to payments received for hall hire and prepaid electricity. Payments in advance are consumer debtors' accounts paid in advance.

Accrued leave and bonuses accrue to the staff of the municipality on an annual basis, subject to certain conditions.

14. Consumer deposits

Electricity	237 774	237 774
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Consumer deposits are paid by consumers on application for new electricity connections. The deposits are repaid when the electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit for the outstanding account. No interest is paid on consumer deposits held.

The management of the municipality is of the opinion that the carrying value of the consumer deposits approximate their fair value.

The fair value of the consumer deposits were determined after considering the standard terms and conditions of the agreements entered into between the municipality and its consumers.

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Provincial: Arts and Culture Grant	-	580 611
Provincial: Small town rehabilitation	14 740 424	-
Provincial: Sports, Arts and Culture (infrastructure)	-	445 446
Provincial: Sports, Arts and Culture (maintenance)	-	14 000
	14 740 424	1 040 057

Movement during the year

Balance at the beginning of the year	1 040 057	6 042 612
Additions during the year	69 340 149	54 545 688
Income recognition during the year	(55 639 782)	(59 548 243)
	14 740 424	1 040 057

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

eDumbe Local Municipality (KZN261)

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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15. Unspent conditional grants and receipts (continued)

See note 26 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

16. Employee benefit obligations

Post-employment medical aid benefit

The amounts recognised in the statement of financial position are as follows:

Carrying value

Accrued liability	5 963 000	6 063 000
Current service cost	366 000	551 000
Interest cost	603 000	624 000
Benefits paid	(108 378)	(78 000)
Actuarial (gains)/losses	(387 622)	(1 197 000)
	6 436 000	5 963 000

Membership data

	Male	Female
Number of active employees	42	25
Subsidy weighted average	42,0	36,2
Subsidy weighted average past service	11,5	6,4
Number of spouses	11	1
Average salary payable during the retirement (R-value)	1 950	1 800

Continuation members (pensioners)

	Male	Female
Number of continuation members	-	2
Subsidy weighted average	Not applicable	74,7
Average monthly salary (R-value)	Not applicable	2 360

Financial variables/assumptions

The two most important financial variables used in our are the discount rate and salary inflation. The assumption has been made for these variables as follows:

	Assumed valuation 30 June 2020 (current valuation)	Assumed value 30 June 2019 (preceding valuation)
Discount rate	Yield curve	Yield curve
Consumer price inflation (CPI)	Difference between nominal and yield curves	Difference between nominal and yield curves
	CPI + 2,5%	CPI + 1%
Medical aid contribution inflation	Yield curve	Yield curve
Net effective discount rate	based **	based **

Subsidy agreement

The municipality has agreed to subsidise the pension fund contributions of retired members in the following way:

- New pensioners (those that are still currently in the service of the municipality) and their dependents will receive 60% subsidy; and
- Existing continuation members (pensioners) and their dependents will continue to receive a 60% subsidy.

eDumbe Local Municipality (KZN261)

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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16. Employee benefit obligations (continued)

Mortality rate

Average retirement age

- The average retirement age for all active employees was assumed to be 63 years of age. The assumptions implicitly allow for ill-health and early retirements.

Normal retirement age

- The normal retirement age for all active employees was assumed to be 65 years of age.

Mortality rates

- Mortality before retirement has been based on the 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and dependents

- We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

Decrements withdrawal

Age band (in years)	Withdrawal rates Male	Withdrawal rates Female
20 - 24	16 %	24 %
25 - 29	12 %	18 %
30 - 34	10 %	15 %
35 - 39	8 %	10 %
40 - 44	6 %	6 %
45 - 49	4 %	4 %
50 - 54	2 %	2 %
55 - 59	2 %	2 %

Long service award

Long service awards are granted to municipal employees after the completion of fixed periods of continuous service with the municipality. The said award comprises of a certain number of additional vacation leave days as prescribed on the basic condition of employment. The effective date used for the purpose of the valuation was 30 June 2020.

The most recent actuarial valuation of the unfunded defined benefit obligation was carried out as at 30 June 2020 by ZAQ Consultants and Actuaries.

The amounts recognised in the statement of financial position are as follows:

Carrying value

Accrued liability	2 574 000	2 236 000
Current service cost	285 000	246 000
Interest cost	259 000	225 000
Benefits paid	(251 955)	71 000
Actuarial (gains)/losses	45 955	(204 000)
	2 912 000	2 574 000

eDumbe Local Municipality (KZN261)

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
16. Employee benefit obligations (continued)		
Non-current liabilities	2 912 000	2 574 000
Current liabilities	51 800	61 800
	2 963 800	2 635 800

Membership data

	Male	Female
Number of active employees	96	42
Salary weighted average age (in years)	43,8	37,6
Weighted average past service (in years)	12,2	6,8

Formula used to calculate the total long service award liability

	Total long service award liability (% of annual salary)	Completed years of service
(10/250)*annual salary	4 %	10
(20/250)*annual salary	8 %	15
(30/250)*annual salary	12 %	20
(30/250)*annual salary	12 %	25
(30/250)*annual salary	12 %	30
(30/250)*annual salary	12 %	35
(30/250)*annual salary	12 %	40
(30/250)*annual salary	12 %	45

Financial variables/assumptions

The two most important financial variables used in our are the discount rate and salary inflation. The assumption has been made for these variables as follows:

	Assumed valuation 30 June 2020 (current valuation)	Assumed value 30 June 2019 (preceding valuation)
Discount rate	Yield curve	Yield curve
Consumer price inflation (CPI)	Difference between nominal and yield curves	Difference between nominal and yield curves
	CPI + 1 %	CPI + 1 %
Normal salary increase rate	Yield curve based **	Yield curve based **
Net effective discount rate		

Mortality rate

Average retirement age

- The average retirement age for all active employees was assumed to be 63 years of age. The assumptions implicitly allows for ill-health and early retirements.

Normal retirement age

- The normal retirement age for all active employees was assumed to be 65 years of age.

Mortality rates

- Mortality before retirement has been based on the 85-90 mortality tables. These are the most commonly used tables in the industry.

eDumbe Local Municipality (KZN261)

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
16. Employee benefit obligations (continued)		
Decrements withdrawal		
Age band (in years)	Withdrawal rates Male	Withdrawal rates Female
20 - 24	16 %	24 %
25 - 29	12 %	18 %
30 - 34	10 %	15 %
35 - 39	8 %	10 %
40 - 44	6 %	6 %
45 - 49	4 %	4 %
50 - 54	2 %	2 %
55 - 59	2 %	2 %
Employee benefit liabilities		
Non-current liabilities	12 260 000	8 537 000
Current liabilities	51 800	61 800
	12 311 800	8 598 800

17. Provisions: landfill sites

Reconciliation of provisions: landfill sites - 2020

	Opening Balance	Utilised during the year	Total
Environmental rehabilitation	9 295 172	(4 963 587)	4 331 585

Reconciliation of provisions: landfill sites - 2019

	Opening Balance	Additions	Total
Environmental rehabilitation	8 503 107	792 065	9 295 172

Environmental rehabilitation provision

The provision for the rehabilitation of the landfill sites relate to the legal obligation to rehabilitation sites used for waste disposal.

As at 30 June 2020, the estimated cost to be incurred by the municipality to restore its landfill sites at the end of their useful lives will be R4 331 586 (2019: R9 295 172). The amount of the rehabilitation is dependent on future costs, technology, inflation and site consumption. The landfill provision represents management's best estimate of the municipality's liability.

The municipality currently has two landfill sites:

- The old landfill site is situated near Esikhaleni; and
- The new landfill site by the Coal Siding.

The municipality has not utilised the old site as a landfill site since January 2014 and the current status of the old landfill site reflects that there are no traces of a landfill site. Therefore, the old landfill site does not acquire any provision for closure. The landfill site conditional assessment for both sites were conducted by Enviropro.

The new landfill site is expected to be fully operational until 30 June 2026 and it is assumed that the rehabilitation will only take place thereafter. The calculation of the provision amount for the new landfill site was done at 30 June 2020 by Enviropro, whereafter the report was issued to the municipality with a report date of October 2020.

eDumbe Local Municipality (KZN261)

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18. Housing development fund

The fund contains all proceeds from housing developments, which include rental income and proceeds through the sale of houses.

Monies standing to the credit of the fund are used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

The balance of the funding is included in the municipality's primary and call bank accounts.

Housing development fund	100 348	100 348
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19. Service charges

Sale of electricity (conventional)	12 453 446	12 475 455
Sale of electricity (prepaid)	7 574 185	7 652 033
Refuse removal	455 847	7 278 381
Other service charges	37 000	-
	20 520 478	27 405 869

The amounts disclosed above for revenue generated from service charges are in respect to services rendered and billed to the consumers on a monthly basis in accordance with the approved tariffs.

20. Rental of facilities and equipment

Premises

Plantation	1 427 164	1 175 814
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21. Licences and permits

Motor vehicle	216 000	226 774
Driver and learner	391 599	606 940
Business	44 000	9 504
	651 599	843 218

22. Investment revenue

Interest revenue

External investments	1 341 574	1 183 533
Outstanding debtors	4 766 064	-
	6 107 638	1 183 533

The amount included in Investment revenue arising from exchange transactions amounted to R 6 107 638.

eDumbe Local Municipality (KZN261)

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Figures in Rand	2020	2019
23. Other income		
Building plan fees	23 009	21 099
Burial fees	23 633	28 018
Clearance certificates	8 867	7 412
Connection and re-connection fees	366 259	20 394
Hall hire	30 250	62 077
Insurance received	15 588	16 741
Public service fees	-	(97)
Recoveries	14 072	126 355
SETA refund	84 315	109 608
Staff rental income	60 000	62 173
Tender fees	34 999	236 280
	660 992	690 060
24. Fair value adjustments		
Investment property (fair value model)	-	5 603 214
25. Property rates		
Rates received		
Residential	3 669 939	3 354 393
Commercial	6 202 689	5 804 877
State	9 570 088	9 709 000
Multipurpose	27 176	223 623
Small holdings and farms	5 918	5 584
Property rates	79 995	452 879
Agricultural	962 391	968 454
Vacant land/stands	1 019 405	799 141
Less: Income forgone	(2 331 146)	(2 103 808)
	19 206 455	19 214 143
Property rates - penalties imposed	13 739 675	7 573 866
	32 946 130	26 788 009
Valuations		
Residential	439 650 000	439 650 000
Commercial	143 490 000	143 490 000
State	204 891 000	204 891 000
Municipal	25 545 000	25 545 000
Place of Worship	15 375 000	15 375 000
Agricultural	492 575 000	492 575 000
Vacant land/stands	41 250 000	41 250 000
State owned land	120 000	120 000
	1 362 896 000	1 362 896 000

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rebates of 15% (2019: 15%) and 10% (2019: 10%) are granted to businesses and vacant land/stands respectively, while properties classified as places of worship, municipal properties, communal land and NPOs are 100% (2019: 100%) exempt.

The municipal performed a supplementary valuation on all properties registered in the name of the Department of Public Works during the 2015/2016 financial year, which resulted in an increase the revenue generated.

eDumbe Local Municipality (KZN261)

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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25. Property rates (continued)

Interest on outstanding balances are not charged, as per the council resolution.

26. Government grants and subsidies

Operating grants

Equitable share	74 556 000	65 835 757
National: Extended Public Works Programme (EPWP)	1 267 000	1 103 000
National: Finance Management Grant (FMG)	2 435 000	1 970 000
Provincial: Arts and Culture	3 511 611	2 623 393
National: Municipal Disaster Grant	1 192 000	-
Provincial: COGHTA Massification	-	23 361
Provincial: COGHTA Truck	-	3 000 000
Provincial: KZN COGHTA Wall-to-wall	-	629 936
Provincial: SASSETA	-	50 000
Provincial: Small town rehabilitation	4 759 576	2 000 000
Provincial: Spatial Development Framework	-	1 000 000
Provincial: Sports, Arts and Culture (maintenance)	14 000	36 000
	87 735 187	78 271 447

Capital grants

National: Integrated National Electrification Programme (INEP)	15 000 000	13 300 000
National: Municipal Infrastructure Grant (MIG)	18 047 000	26 762 000
Provincial: COGHTA Electrification	-	3 000 000
Provincial: Sports, Arts and Culture (infrastructure)	445 446	4 054 554
	33 492 446	47 116 554
	121 227 633	125 388 001

Equitable share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

National: Extended Public Works Programme (EPWP)

Current-year receipts	1 267 000	1 103 000
Conditions met - transferred to revenue	(1 267 000)	(1 103 000)
	-	-

To incentivise the municipalities to expand work creation efforts through the use of labour intensive delivery methods in the identified focus areas, in compliance with the EPWP guidelines.

All the conditions of the grant were met and no funds were withheld.

National: Finance Management Grant (FMG)

Current-year receipts	2 435 000	1 970 000
Conditions met - transferred to revenue	(2 435 000)	(1 970 000)
	-	-

The grants is paid by National Treasury to municipalities to help with the implementation of the financial reforms required by the MFMA. The grant also pays for the cost of the financial management internship programme.

All the conditions of the grant were met and no funds were withheld.

eDumbe Local Municipality (KZN261)

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26. Government grants and subsidies (continued)

Provincial: Arts and Culture

Balance unspent at beginning of year	580 611	434 004
Current-year receipts	2 931 000	2 770 000
Conditions met - transferred to revenue	(3 511 611)	(2 623 393)
	<u>-</u>	<u>580 611</u>

Conditions still to be met - remain liabilities (see note 15).

The grant used by the libraries for their operations. The library services failed to implement their plans in the previous financial year, which lead to the opening balance being carried over.

All the conditions of the grant were met and no funds were withheld.

Provincial: COGHTA Massification

Current-year receipts	-	23 361
Conditions met - transferred to revenue	-	(23 361)
	<u>-</u>	<u>-</u>

The grant was allocated to the municipality for the electrification of Nkembeni Phase 1 in the Mbizeni Area.

All the conditions of the grant were met and no funds were withheld.

Provincial: COGHTA Truck

Current-year receipts	-	3 000 000
Conditions met - transferred to revenue	-	(3 000 000)
	<u>-</u>	<u>-</u>

All the conditions of the grant were met and no funds were withheld.

Provincial: KZN COGHTA Wall-to-wall

Current-year receipts	-	629 936
Conditions met - transferred to revenue	-	(629 936)
	<u>-</u>	<u>-</u>

All the conditions of the grant were met and no funds were withheld.

Provincial: SASSETA

Current-year receipts	-	50 000
Conditions met - transferred to revenue	-	(50 000)
	<u>-</u>	<u>-</u>

All the conditions of the grant were met and no funds were withheld.

eDumbe Local Municipality (KZN261)

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Figures in Rand	2020	2019
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26. Government grants and subsidies (continued)

Provincial: Spatial Development Framework

Current-year receipts	-	1 000 000
Conditions met - transferred to revenue	-	(1 000 000)
	-	-

All the conditions of the grant were met and no funds were withheld.

Provincial: Sports, Arts and Culture (maintenance)

Balance unspent at beginning of year	14 000	-
Current-year receipts	-	50 000
Conditions met - transferred to revenue	(14 000)	(36 000)
	-	14 000

Conditions still to be met - remain liabilities (see note 15).

All the conditions of the grant were met and no funds were withheld.

Provincial: Small town rehabilitation

Current-year receipts	19 500 000	2 000 000
Conditions met - transferred to revenue	(4 759 576)	(2 000 000)
	14 740 424	-

Conditions still to be met - remain liabilities (see note 15).

All the conditions of the grant were met and no funds were withheld.

National: Integrated National Electrification Programme (INEP)

Balance unspent at beginning of year	-	(519 413)
Current-year receipts	15 000 000	13 300 000
Conditions met - transferred to revenue	(15 000 000)	(12 780 587)
	-	-

The grant is paid by National Treasury in order to implement the Integrated National Electrification Programme by addressing the electrification backlog of all existing and planned residential dwellings and the installation of relevant bulk infrastructure.

All the conditions of the grant were met and no funds were withheld.

National: Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	-	(29 452)
Current-year receipts	18 047 000	26 762 000
Conditions met - transferred to revenue	(18 047 000)	(26 732 548)
	-	-

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions, and to provide for new, rehabilitation and upgrading of municipal infrastructure.

All the conditions of the grant were met and no funds were withheld.

eDumbe Local Municipality (KZN261)

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
26. Government grants and subsidies (continued)		
Provincial: COGHTA Electrification		
Current-year receipts	-	3 000 000
Conditions met - transferred to revenue	-	(3 000 000)
	-	-

The grant is allocated to municipalities to improve and upgrade the electricity infrastructure and enhance the electricity capacity within the municipality.

Provincial: Sports, Arts and Culture (infrastructure)

Balance unspent at beginning of year	445 446	-
Current-year receipts	-	4 500 000
Conditions met - transferred to revenue	(445 446)	(4 054 554)
	-	445 446

The grant is allocated for infrastructure upgrading at the library.

All the conditions of the grant were met and no funds were withheld.

National: Municipal Disaster Grant

Current-year receipts	1 192 000	-
Conditions met - transferred to revenue	(1 192 000)	-
	-	-

This grant is intended to fund emergency repairs to essential basic services infrastructure, provision of temporary infrastructure, humanitarian relief and other immediate essential services following a declared state of disaster.

27. Fines

Traffic fines	1 379 400	2 057 700
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The fines issues, but not yet collected at 30 June 2020 amounted to R1 231 327 (2019: R1 442 400). Based on past experience, it is management's best estimate that only 11% (2019: 12%) of the outstanding traffic fines have not been impaired.

eDumbe Local Municipality (KZN261)

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Figures in Rand	2020	2019
28. Employee related costs		
Basic salaries and wages	37 679 083	33 392 072
Bonus	2 815 373	2 514 517
WCA	2 005 620	-
Leave pay provision charge	811 649	1 015 803
Pensioners allowance	365 999	173 183
Protective clothing	93 893	-
Overtime payments	957 088	667 615
Long service awards	285 000	683 946
Acting allowances	891 917	743 543
Car allowance	1 999 604	2 007 527
Cellphone allowances	279 800	288 000
Housing benefits and allowances	86 483	118 489
Housing allowances	213 330	224 742
Standby allowances	1 044 558	411 975
Defined contribution plans	5 493 082	5 070 581
Council contributions: Medical aid	1 821 746	1 763 751
Council contribution: SALGBC	22 228	21 480
Council contributions: UIF	276 969	234 830
Risk allowance	281 678	-
	57 425 100	49 332 054

Remuneration of Municipal Manager: Mr MP Khathide

Annual remuneration	428 301	556 439
Backpay	18 833	-
Car allowance	92 798	119 793
Cellphone allowance	21 600	28 800
Housing allowance	71 383	90 111
Remote allowance	28 553	38 071
Leave payout	68 581	-
Council contributions to UIF, medical aid and pension	123 137	162 857
	853 186	996 071

Mr MP Khathide resigned on 31 March 2020 as the Municipal Manager. Mr S Cele (Director: Infrastructure and Planning) acted as Municipal Manager from 1 April 2020.

Remuneration of Municipal Manager: Mr TV Mkhize

Performance bonus	-	48 769
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Mr TV Mkhize resigned as the Municipal Manager of the municipality in the 2017/2018 financial year, and received a performance bonus during the 2018/2019 financial year.

Remuneration of Chief Finance Officer: Ms NN Mngomezulu

Annual remuneration	-	195 365
Car allowance	-	12 244
Cellphone allowance	-	30 368
Housing allowance	-	48 841
Other allowances	-	37 490
Council contributions to UIF, medical aid and pension	-	745
	-	325 053

Ms NN Mngomezulu left the municipality on 31 March 2019. The post has been vacant for the year under review. No one has been acting in the position.

eDumbe Local Municipality (KZN261)

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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28. Employee related costs (continued)

Remuneration of Chief Finance Officer: Mr S Mngwengwe

Performance bonus	-	48 118
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Mr S Mngwengwe resigned as the CFO of the municipality on 31 January 2018 and received performance bonus during 2018/2019 financial year.

Remuneration of the Director: Infrastructure and Planning: Mr S Cele

Annual remuneration	575 124	558 391
Performance bonus	85 961	-
Backpay	39 153	-
Remote allowance	38 342	-
Car allowance	100 647	98 144
Cellphone allowance	22 800	22 800
Housing allowance	115 025	111 307
Council contributions to UIF, medical aid and pension	167 744	164 612
	1 144 796	955 254

Remuneration of the Acting Director: Infrastructure and Planning: Mr CT Buthelezi

Acting allowance	7 131	-
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Mr CT Buthelezi acted as the Director: Infrastructure and Planning for 1 month and received an acting allowance of R7 131 as approved by the council.

Remuneration of Director: Corporate and Community Services: Mr VB Mbatha

Annual remuneration	522 841	507 629
Backpay	35 575	22 245
Car allowance	148 138	201 867
Cellphone allowance	22 800	22 800
Housing allowance	200 422	194 591
Remote allowance	34 875	34 742
Contribution to UIF, medical aid and pension	1 785	1 802
Performance bonus	32 561	-
	998 997	985 676

29. Remuneration of councillors

Honourable Mayor	896 800	883 833
Deputy Mayor	715 029	451 270
Mayoral Committee Member	392 185	337 654
Speaker	1 049 166	761 590
Councillors	3 293 112	3 185 522
MPAC Chairperson	375 594	353 333
	6 721 886	5 973 202

30. Depreciation and amortisation

Property, plant and equipment	13 373 598	12 366 048
Intangible assets	8 349	4 860
	13 381 947	12 370 908

eDumbe Local Municipality (KZN261)

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019		
31. Impairment of assets				
Impairments				
Property, plant and equipment	8 267 910	-		
The impairment loss represents the losses identified during the preparation of the fixed asset register and is attributable to individual items in infrastructure - and community assets.				
Other receivables from non-exchange transactions	831 396	6 769 441		
The impairment loss represents the movement in the provision for impairment for the fines debtors recognised.				
	9 099 306	6 769 441		
32. Finance costs				
Provisions (rehabilitation of landfill site)	(4 963 587)	792 065		
Employee benefit liabilities	1 238 123	1 512 459		
	(3 725 464)	2 304 524		
33. Debt impairment				
Debt impairment	7 022 892	12 105 773		
34. Bulk purchases				
Electricity	26 249 984	22 142 906		
Electricity losses				
	Number 2020	Number 2019		
Units purchased (kWh)	22 143 181	21 774 438	26 249 984	21 774 438
Units sold (kWh)	(12 613 733)	(13 376 334)	(22 268 566)	(13 376 334)
Units own use (municipal buildings)	-	(139 296)	-	(139 296)
Total loss	9 529 448	8 258 808	3 981 418	8 258 808
Percentage loss:				
Technical and non-technical losses	43 %	38 %	15 %	38 %
35. Lease rentals on operating lease				
Lease rentals on operating lease				
Contractual amounts			691 982	305 989

eDumbe Local Municipality (KZN261)

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
36. Contracted services		
Outsourced services		
Administrative and support staff	-	49 400
Burial services	162 844	102 110
Business and advisory	1 221 768	1 182 672
Catering Services	1 398 730	-
Clearing and grass cutting services	272 500	1 204 890
Fire services	-	4 764
Professional staff	283 516	1 185 983
Refuse removal	267 058	22 682
Security services	468 295	5 133 502
Transport services	604 393	541 902
Water Takers	75 000	-
Consultants and professional services		
Business and advisory	1 377 546	2 331 894
Infrastructure and planning	683 205	2 053 339
Legal cost	326 477	1 192 882
Contractors		
Catering services	-	1 231 545
Maintenance of buildings and facilities	28 609	228 272
Maintenance of equipment	2 936 383	1 656 102
Maintenance of unspecified assets	1 864 185	579 841
	11 970 509	18 701 780
37. General expenses		
Accommodation	963 145	777 476
Advertising	145 117	268 108
Auditors remuneration	1 540 773	1 148 698
Bank charges	177 784	147 841
Consulting and professional fees	2 428 328	1 179 673
Consumables	1 584 951	470 660
Electricity	872 593	268 023
Fuel and oil	1 195 133	884 855
Insurance	753 346	703 166
Internet costs	80 565	109 656
Membership fees (SALGA)	698 755	516 785
Motor vehicle expenses	15 542	-
Postage and courier	1 848	1 709
Prepaid electricity	498 717	154 942
Printing and stationery	607 981	458 983
Protective clothing	293 005	105 654
Repairs and maintenance	869 545	-
Seating allowance	14 848	10 500
Skills development levies	430 035	493 775
Telephone and fax	519 764	227 922
Travel - local	625 288	316 928
Ward committees	644 800	471 600
	14 961 863	8 716 954
38. Auditors' remuneration		
Fees	1 540 773	1 148 698

eDumbe Local Municipality (KZN261)

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
39. Cash generated from operations		
Surplus	41 462 696	53 537 887
Adjustments for:		
Depreciation and amortisation	13 381 947	12 370 908
Fair value adjustments	-	(5 603 214)
Impairment deficit	8 267 910	6 769 441
Debt impairment	7 022 892	12 105 773
Movements in retirement benefit assets and liabilities	801 000	238 000
Movements in provisions	(4 963 587)	792 065
Other non-cash items	(761 195)	7 295 534
Changes in working capital:		
Inventories	2 567	26 440
Other receivables from exchange transactions	22 410	(14 642 571)
Consumer debtors	(20 945 430)	(12 105 773)
Other receivables from non-exchange transactions	(399 630)	(4 199 288)
Payables from exchange transactions	(3 867 109)	(20 284 481)
VAT	1 336 239	2 308 128
Unspent conditional grants and receipts	13 700 367	(5 002 555)
	55 061 077	33 606 294

40. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	14 740 424	4 868 626
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Total capital commitments

Already contracted for but not provided for	14 740 424	4 868 626
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Total commitments

Total commitments

Authorised capital expenditure	14 740 424	4 868 626
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This committed expenditure relates to property and will be financed through grant funding from the Department of Co-operative Governance and Traditional Affairs (COGHTA) and the Department of Energy, with other portions funded through internally generated funds.

41. Related parties

Relationships

Employee of the municipality	T Mdletshe
Employee of the municipality	D Nhlengethwa
Employee of the municipality	BL Nkwanyana
Director of company is the employee of the municipality	Siwangu Trading and Projects
Associated with an employee of the municipality	XB Donga Trading
Director of company is brother of the SCM practitioner	Emihle Imisebenzi Innovative Projects
Director of the company is the brother of the PA	Empire and Isix Other Project (Pty) Ltd
Director of the company is the husband of the SCM practitioner	Isulami Trading and Projects

Related party balances

Amounts included in trade receivable (trade payable) regarding related parties

Isulami Trading and Projects	-	(6 992)
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eDumbe Local Municipality (KZN261)

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Figures in Rand 2020 2019

41. Related parties (continued)

Related party transactions

Purchases from related parties

Emihle Imisebenzi Innovative Projects	116 000	-
Empire and Isix Other Project (Pty) Ltd	3 500	45 650
Isulami Trading and Projects	270 112	1 443 477
Siwangu Trading and Projects	-	7 000
XB Donga Trading	-	42 682
T Mdletshe	-	2 500
D Nhlengethwa	-	10 980
BL Nkwanyana	-	9 900

Remuneration of management

Councillors

2020

Name	Basic salary	Cellphone allowance	Data allowance	Travel allowance	Re-imbursments	Total
SJ Kunene	687 148	22 529	300	173 711	13 112	896 800
ND Ndlangamandla	307 403	22 529	300	76 795	308 001	715 028
ST Hlatshwayo	549 719	22 529	300	138 969	337 649	1 049 166
HH Vilakazi	282 423	22 529	300	67 195	3 146	375 593
ND Sibiya	287 536	22 529	300	71 997	9 823	392 185
Me B Shabalala	220 070	22 529	300	52 360	325	295 584
MSE Mbokazi	272 430	22 529	300	-	3 218	298 477
DF Sukazi	220 070	22 529	300	52 360	266	295 525
JB Mthethwa	220 070	22 529	300	52 360	8 230	303 489
RC Gevers	220 070	22 529	300	52 360	325	295 584
JDvR Lourens	220 070	22 529	300	52 360	325	295 584
DP Masondo	220 070	22 529	300	52 360	11 440	306 699
ND Mngomezulu	220 070	22 529	300	52 360	5 686	300 945
DD Maseko	220 070	22 529	300	52 360	257	295 516
MS Zulu	220 070	22 529	300	52 360	11 975	307 234
ZP Mtetwa	220 070	22 529	300	52 360	3 218	298 477
	4 587 359	360 464	4 800	1 052 267	716 996	6 721 886

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41. Related parties (continued)

2019

Name	Basic salary	Cellphone allowance	Travel allowance	Re-imbursments	Total
SJ Kunene	568 509	20 868	189 503	51 256	830 136
ND Ndlangamandla	265 359	20 868	83 777	296 024	666 028
ST Hlatshwayo	479 670	20 868	151 602	213 602	865 742
HH Vilakazi	233 266	20 868	73 304	2 727	330 165
ND Sibiya	248 779	20 868	78 542	8 348	356 537
MSE Mbokazi	238 886	20 868	-	1 608	261 362
DF Sukazi	181 766	20 868	57 120	-	259 754
JB Mthethwa	181 766	20 868	57 120	6 722	266 476
RC Gevers	181 766	20 868	57 120	-	259 754
JDvR Lourens	181 766	20 868	57 120	-	259 754
DP Masondo	181 766	20 868	57 120	-	259 754
ND Mngomezulu	181 766	20 868	57 120	-	259 754
DD Maseko	181 766	20 868	57 120	-	259 754
MS Zulu	181 766	20 868	57 120	17 655	277 409
ZP Mtetwa	181 766	20 868	57 120	7 247	267 001
B Shabalala	181 766	20 868	57 120	-	259 754
Medical aid	-	-	-	34 068	34 068
	3 852 129	333 888	1 147 928	639 257	5 973 202

42. Unauthorised expenditure

Opening balance as previously reported	51 627 912	53 764 357
Opening balance as restated	51 627 912	53 764 357
Add: Expenditure identified - current	7 914 851	11 163 555
Less: Amount written-off by council	(59 542 763)	(13 300 000)
Closing balance	-	51 627 912

The amount of unauthorised expenditure is as a result of actual amounts exceeding approved and adjusted budgets. The amount also includes non-cash items.

43. Fruitless and wasteful expenditure

Opening balance as previously reported	7 823 512	7 160 053
Opening balance as restated	7 823 512	7 160 053
Add: Expenditure identified - current	370 454	663 459
Less: Amount written off - current	(370 454)	-
Less: Amount written off - prior period	(7 823 512)	-
Closing balance	-	7 823 512

The fruitless and wasteful expenditure incurred during the year was for the interest raised by Eskom, SARS, pension funds and other service providers for non-payments. The cash flow challenges faced by the municipality was the root cause for failure to settle the debts within the prescribed period as per section 65 of the MFMA.

eDumbe Local Municipality (KZN261)

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
44. Irregular expenditure		
Opening balance as previously reported	34 831 774	71 514 029
Opening balance as restated	34 831 774	71 514 029
Add: Irregular expenditure - current	802 659	5 794 572
Less: Amount written off - current	(802 659)	(42 393 362)
Less: Amount written off - prior period	(34 831 774)	(83 465)
Closing balance	-	34 831 774

Incidents/cases identified in the current year include those listed below:

Variation order not approved	-	551 130
Three written quotations not invited	-	254 790
Bonus paid with no approval	-	126 355
Awards to person in the service of the state	-	2 504 720
Contract expired	47 302	2 357 577
Bid committee non-compliance	755 357	-
	802 659	5 794 572

45. Prior year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior year adjustments:

Statement of financial position

2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Receivables from exchange transactions	4	13 096 788	-	(1 765 811)	11 330 977
Receivables from non-exchange transactions	4	18 502 140	-	(1 465 323)	17 036 817
Other receivables from exchange transactions	5	-	-	1 808 622	1 808 622
Other receivables from non-exchange transactions	6	-	-	1 422 512	1 422 512
VAT receivable	7	1 336 910	-	-	1 336 910
Property, plant and equipment	10	313 813 799	772 362	-	314 586 161
Payables from exchange transactions	13	(22 612 323)	(494 558)	-	(23 106 881)
Accumulated surplus (closing balance)		(324 806 942)	(277 804)	-	(325 084 746)
		(669 628)	-	-	(669 628)

Statement of financial performance

2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Service charges	19	(27 405 869)	-	-	(27 405 869)
Other income	23	(580 452)	-	(109 608)	(690 060)
Property rates	25	(19 214 143)	-	-	(19 214 143)
Employee related costs	28	48 838 147	-	493 907	49 332 054
Audit fees		1 148 698	-	(1 148 698)	-
Operational costs		7 481 893	-	(7 481 893)	-
Contracted services	36	18 207 222	494 558	-	18 701 780
Consumables		470 660	-	(470 660)	-
General expenses	37	-	-	8 716 952	8 716 952
Surplus for the year		28 946 156	494 558	-	29 440 714

eDumbe Local Municipality (KZN261)

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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45. Prior year adjustments (continued)

Errors

The following prior period errors adjustments occurred:

Correction of fixed asset register

Management conducted an asset verification, as part of their annual preparation of the fixed asset register. The results indicated that certain prior year adjustments were required to ensure the validity, completeness, accuracy and completeness of the register. These adjustments were made retrospectively.

The correction of the error results in adjustments as follows:

Statement of financial position

Increase (decrease) in Property, plant and equipment	(427 638)	(427 638)
(Increase) decrease in Accumulated surplus	427 638	427 638

Correction of creditors at yearend

During the preparation of the 2020 annual financial statements, creditors were identified that should have been provided for at 30 June 2019. The adjustment was made retrospectively as these were deemed to be material

The correction of the error results in adjustments as follows:

Statement of financial position

(Increase) decrease in Payables from exchange transactions	(494 558)	(494 558)
(Increase) decrease in Accumulated surplus	494 558	-

Statement of financial performance

Increase (decrease) in Contracted services	-	494 558
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Land sold during 2020, corrected

During the 2020 financial year the municipality sold/disposed of land. On inspection of the register, it was found that this particular property had no financial value attached to it. Management valued and retrospectively corrected the financial records and register.

The correction of the error results in adjustments as follows:

Statement of financial position

Increase (decrease) in Property, plant and equipment	1 200 000	1 200 000
(Increase) decrease in Accumulated surplus	(1 200 000)	(1 200 000)

Reclassifications

The following reclassifications adjustment occurred:

Reclassification of receivables

During the preparation of the annual financial statements, certain receivables from exchange and non-exchange transactions were reclassified for presentation and disclosure purposes.

Reclassification of expenses

During the preparation of the annual financial statements, certain expense items were reclassified for presentation and disclosure purposes.

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46. Contingencies		
Litigation is in the process against the municipality relating to a dispute with a competitor who alleges that the municipality has infringed patents and is seeking damages. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next year.		
Lime Distributors (rehabilitation of Joubert Street)		
Lime Distributors is suing the municipality for unpaid invoices for goods delivered in terms of the cession agreement with Swatilelihle, in the amount of R223 258. The liability includes legal costs for the plaintiff of R100 000 and legal costs for the municipality of R100 000.	223 258	223 258
AMT Putini (claim for damages)		
Mr AMT Putini instituted proceedings in the bargaining council challenging his suspension by the council in 2010. The award was for the municipality to pay the claimant an amount of R480 305 excluding legal costs. The council has challenged the award and currently the council's attorneys are dealing with the matter. Should the council be unsuccessful in defending the claim, there is a possibility that the claim will be settled at R480 305 plus the estimated amount to settle the attorney of the council of R150 000 and the claimant's attorney fees estimated at R150 000.	480 305	480 305
MSN Investments		
The municipality is sued by Ihlathi Transport CC for the services rendered to municipality. Ihlathi Transport CC is demanding the outstanding payment of R1.9 million from the municipality for services rendered. The estimated legal fees is R100 000. The municipality is in the process of appointing a new attorney.	1 900 000	1 900 000
Swatilelihle		
Swatilelihle was appointed by the municipality for the construction of Joubert Street in Paulpietersburg (town). The company executed the work, and was paid for the work that was done. They are however claiming that they did not make a profit due to some instruction on site by the municipality and other site issues. They are suing the municipality for R3.8 million for disputes of unpaid invoices arising from the contract. The liability includes legal costs for the plaintiff of R100 000 and legal costs for the municipality of R100 000.	3 800 000	3 800 000
Natal Richard Bay Hire CC		
Natal Richard Bay Hire CC is suing the municipality for R411 279 together with the interest for failing to pay the monies due in terms of the contract. The contingent liability includes the legal cost for the plaintiff of R100 000 and the legal cost for the municipality of R100 000.	411 279	411 279
Bonakude Consulting		
The municipality received summons to appear in court. Bonakude Consulting applied in High Court of South Africa KwaZulu Natal Division, Pietermaritzburg for a court order to stop the finalising and awarding of contract EDUMPRO 05/2016/17. Written responses for its decision to re-advertise the tender under contract EDUMPRO 05/2016/17 had to be provided to the applicant within 5 days. In summary, the municipality issued the applicant with a letter of intention to award. Subsequent to the applicant accepting that award, the municipality then re-advertised the aforementioned tender in circumstances where the respondent had neither provided the applicant with any reason as to why the award was set aside and the tender re-advertised.	100 000	100 000

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46. Contingencies (continued)

AfriForum

The municipality was sued for not paying R14 885. AfriForum claimed at the time that they have repaired certain portion of the urban roads without the permission of the municipality and needed to be refunded. The municipality took a decision to defend itself.	14 885	14 885
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Guarantee with Eskom

The municipality has a call account, which has a portion of guarantee withheld by the bank for the Eskom license guarantee. The amount for the guarantee is R530 000.	530 000	530 000
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47. Risk management

Financial risk management

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department: Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

It is the policy of the municipality to disclose information that enables the user of its annual financial statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial environment.

Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation. The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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47. Risk management (continued)

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Cash and cash equivalents:

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with ABSA Bank, First National Bank, Nedbank and Standard Bank.

Receivables from exchange and non-exchange transactions:

Receivables from exchange and non-exchange transactions are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

The application of section 118(3) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property.

- A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount.
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA.
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually.
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of financial position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

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47. Risk management (continued)

Long-term receivables and other debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

Market risk

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with ABSA Bank and First National Bank. No investments with a tenure exceeding twelve months are made.

Consumer debtors (included in Receivables from exchange and non-exchange transactions) comprise of a large number of ratepayers, dispersed across different industries and geographical areas.

Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer deposits are increased accordingly.

Long-term receivables and other debtors are individually evaluated annually at the reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to credit interest rate risk as the municipality has no borrowings.

The municipality's exposures to interest rates on Financial assets and Financial liabilities are detailed in the Credit Risk Management section of this note.

48. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	15 366 665	15 366 665
Receivables from non-exchange transactions	15 366 665	15 366 665
Other receivables from exchange transactions	1 786 210	1 786 210
Other receivables from non-exchange transactions	1 822 142	1 822 142
VAT receivable	671	671
Cash and cash equivalents	25 038 357	25 038 357
	59 380 710	59 380 710

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Figures in Rand	2020	2019
48. Financial instruments disclosure (continued)		
Financial liabilities		
	At amortised cost	Total
Payables from exchange transactions	19 239 774	19 239 774
Consumer deposits	237 774	237 774
Unspent conditional grants	14 740 424	14 740 424
	34 217 972	34 217 972
2019		
Financial assets		
	At amortised cost	Total
Receivables from exchange transactions	11 330 977	11 330 977
Receivables from non-exchange transactions	17 036 818	17 036 818
Other receivables from exchange transactions	1 808 622	1 808 622
Other receivables from non-exchange transactions	1 422 512	1 422 512
VAT receivable	1 336 910	1 336 910
Cash and cash equivalents	3 070 476	3 070 476
	36 006 315	36 006 315
Financial liabilities		
	At amortised cost	Total
Payables from exchange transactions	23 106 883	23 106 883
Consumer deposits	237 774	237 774
Unspent conditional grants	1 040 057	1 040 057
	24 384 714	24 384 714
49. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	3 163 422	2 631 985
Current year membership expense	698 755	545 507
Amount paid - current year	(1 066 951)	(14 070)
	2 795 226	3 163 422
Audit fees		
Current year audit fee	1 777 385	1 148 698
Current year interest expense	5 750	-
Amount paid - current year	(1 765 935)	(1 148 698)
	17 200	-

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49. Additional disclosure in terms of Municipal Finance Management Act (continued)

PAYE and UIF

Opening balance	745 418	698 707
Current year deductions	9 596 203	8 483 014
Amount paid - current year	(9 596 203)	(7 737 596)
Amount paid - previous years	(745 418)	(698 707)
	-	745 418

Pension and medical aid fund deductions

Opening balance	600 871	3 328 573
Current year deductions	13 102 050	11 371 182
Amount paid - current year	(13 702 921)	(14 098 884)
	-	600 871

VAT

VAT receivable	671	1 336 910
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VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2020:

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
SJ Kunene	1 058	23 259	24 317
RC Gevers	4 535	5 649	10 184
ST Hlatshwayo	2 836	18 658	21 494
	8 429	47 566	55 995

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Roga Motors

The municipality currently does not have a licensed petrol bouser/filling station. The municipality operate on a 30 day payment terms. Roga is the only local service provider who agree to the terms on an as and when required basis.

- 827 128

Bell Equipment

Our plant is the product of Bell Equipment and they have proved to be the only reliable service provider to provide service repairs and maintenance to this plant

349 292 201 594

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49. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Ilanga Newspaper		
Ilanga Newspaper has cheaper advertising rate, which makes them to always win quotations that has resulted in other advertising companies reluctant to quote for us	-	194 029
Anesco Toyota		
The expenditure was incurred for the service of Toyota vehicle, which was sent straight to Anesco as we only have one Toyota garage in town	178 012	81 152
Supply and delivery of two bakkies	-	774 364
Supply and delivery of art and culture vehicle	-	287 855
Supply and delivery of tractor and mower	-	363 975
	178 012	1 507 346
Khuphukani		
It was emergency due to breakdown of electrical transformer. During the year municipality utilised the services of Elolam Manufacturing for the same services provided by TSS Engineering.	-	360 720
Road Traffic Management Corporation		
Sole provider to traffic officers for training	-	48 588
Spark Ellis		
Supply and delivery of traffic officers uniform. Only two bidders responded	-	53 170
Syco Machinery		
Upgrading of licensing and testing centre and compliance system. Only one bidder responded	-	159 620
Exclusive rights	11 176	-
	11 176	159 620
Ghost Mountain		
Accommodation for Mkhosi Wornhlanga	-	42 000
Presenciou Trading Enterprise		
Consolidation and rezoning of skills centre	-	49 419
Bargain Uniforms		
Less than 3 quotes received	66 231	-
Covid-19 pandemic intervention	77 073	-
	143 304	-
BEE 1 Security Services		
Ward 3 service delivery protest intervention	115 000	-

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49. Additional disclosure in terms of Municipal Finance Management Act (continued)		
For the following suppliers it was impracticable to follow the official procurement processes:		
Afrihost (e-mail account host)	9 469	-
All Steel Fencing (cession from the main contractor)	330 000	-
Amanyamande Funeral Services (support to indigent family, cost already incurred)	7 000	-
Autobahn Tyres (strip and quote)	36 600	-
Chartered Institute of Government Finance Audit and Risk Officers (sole provider)	5 175	-
Duduzile Joyce Nhlengethwa (cheque in the same name of the employee)	13 200	-
Dumbe Funerals CC (indigent burials, local service provider with credit terms)	152 500	-
Ethemba Computers and Consulting CC (local supplier of laptops)	39 665	-
Findo Forestry and Construction (Pty) Ltd (strip and quote)	151 900	-
Majabula Construction (Pty) Ltd (cession from the main contractor)	136 558	-
Morulat Trading 24 (cession from the main contractor)	191 130	-
	1 073 197	-
Bargain Uniforms		
Less than 3 quotes received	66 231	-
Covid-19 pandemic intervention	77 073	-
	143 304	-
BEE 1 Security Services		
Ward 3 service delivery protest intervention	115 000	-
Ekuvukeni Contractors		
Covid-19 pandemic intervention	539 900	-
Emihle Imisebenzi Innovative Projects		
Covid-19 pandemic intervention	116 000	-
Gijima		
Less than 3 quotes received	13 900	-
HHG Niebuhr		
Refund paid	57 302	-
Intombizamandlovu 101 Trading and Projects		
Less than 3 quotes received	39 700	-
Khanyisa Civils and General Maintenance CC		
Emergency situation due to service delivery protest	284 814	-
Philisamangwane (Pty) Ltd		
Less than 3 quotes received	137 050	-

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49. Additional disclosure in terms of Municipal Finance Management Act (continued)		
SL and P Property Managers		
Less than 3 quotes received	241 256	-
A1 Glass and Aluminium		
Covid-19 pandemic intervention	86 250	-
Topsports Gunshop CC		
Less than 3 quotes received	74 200	-
Velimbuso Construction (Pty) Ltd		
Covid-19 pandemic intervention	128 700	-
ZAQ Consultants and Actuaries		
Less than 3 quotes received	23 000	-

50. In-kind donations and assistance

No in-kind donations and assistance were received during the year under review.

51. Budget differences

Material differences between budget and actual amounts

The reasons for the material differences (in excess of 10%) between the budget and actual amounts is attributed to the following:

Statement of financial performance:

Service charges: The municipality has an approved policy that allows indigent households with residential values of R110 000 or less not to be billed.

Rental of facilities and equipment: Less revenue generated as operations came to a stand still for a number of weeks/months due to the Covid-19 pandemic.

Licences and permits: Less revenue generated as operations came to a stand still for a number of weeks/months due to the Covid-19 pandemic.

Property rates: Council approved a revenue strategy whereby 50% of the outstanding account will be written-off if the consumer pays the remaining 50% of the outstanding balance.

Interest received on outstanding debtors: Although no amount was budgeted, the municipality charged interest on all outstanding accounts from day 31.

Fines: Less revenue generated as operations came to a stand still for a number of weeks/months due to the Covid-19 pandemic.

Remuneration of councillors: Backpay of councillors in accordance with the upper limits approved and gazetted by COGHTA, which was not budgeted for.

Impairment loss (reversal): Council approved a revenue strategy whereby 50% of the outstanding account will be written-off if the consumer pays the remaining 50% of the outstanding balance. In addition, material impairment was identified during asset verification, which resulted in unbudgeted expenditure being incurred.

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51. Budget differences (continued)

Gains (loss) with disposal of PPE: Although management budgeted for R2 000 000 profit with sale of assets, only one property was sold and no profit was made thereon - the proceeds amounted to R1 200 000.

Bulk purchases: Fluctuation is due to increased tariffs charged and the demand during the winter months.

Depreciation and amortisation: No cash items were budgeted for and due to the fact that significant/material items were transferred to the completed assets (additional depreciation).

Finance cost: The provision for landfill sites resulted in a material decrease in the provision, and resulted in the unbudgeted "income" being realised.

Contracted services: Decrease in contracted services as operations came to a stand still for a number of weeks/months due to the Covid-19 pandemic.

Statement of financial position:

Property, plant and equipment: Balance increased due to the transfer of WIP to completed assets.

VAT: No material variance exists.

Heritage assets: Immaterial assets and asset balances.

Consumer debtors: Council approved a revenue strategy whereby 50% of the outstanding account will be written-off if the consumer pays the remaining 50% of the outstanding balance.

Payables from exchange transactions: Due to the Covid-19 pandemic, expenditure decreased. This, together with better credit and cash control procedures, resulted in the decrease of the creditors at yearend.

Unspent conditional grants: Grants were received in March 2020, but due to the Covid-19 pandemic and restrictions all allocated funds could not be spent by yearend.

Employee benefit obligations: Although not separately budgeted for, the balance is based on actuarial valuations performed, as required by GRAP 25.

Provisions (landfill sites): Although not separately budgeted for, the balance is based on professional valuations performed.

Cash flow statement:

The net increase in the cash and cash equivalent balances is mainly attributable to:

- Council approved a revenue strategy whereby 50% of the outstanding account will be written-off if the consumer pays the remaining 50% of the outstanding balance. This resulted in additional cash inflows.
- Grants were received in March 2020, but due to the Covid-19 pandemic and restrictions all allocated funds could not be spent by yearend. These funds are therefore still in the bank accounts at yearend.

52. Events after the reporting date

No events after reporting date have been identified.

53. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus (deficit) of R 366 547 440 and that the municipality's total assets exceed its liabilities by R 366 647 788.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

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53. Going concern (continued)

Management considered the following matters relating to the going concern assumption:

- The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.
- The municipality's budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.
- As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.
- The ability of the municipality to continue as a going concern is dependant on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

The municipality is currently not experiencing financial difficulties. Indicators of the municipality's sound financial position are:

- Surplus of R41 462 696 (2019: R53 537 887) was realised and government grants and subsidies contributed R121 227 633 (2019: R125 388 001).
- The municipality's unspent conditional grants for the current year amounted to R14 740 424 (2019: R1 040 057). This is an indication that monies received are utilised for the specific projects under construction.
- The creditors are not paid within 30 days as required by the MFMA due to cash constraints.
- Debt collection period has improved during the current financial year.
- The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets should be impaired (GRAP 104). A provision for doubtful debt amounting to R106 427 997 (2019: R109 205 833) has been disclosed in the financial statements.
- As at 30 June 2020 the municipality's current liabilities amounted to R34 269 772 (2019: R24 446 514), whilst the current assets amounted to R71 031 029 (2019: R36 102 199).
- The current and acid test ratios are above the required ratio of 2.07:1 and 1.34:1, respectively.

Management have considered the risks, but based on their evaluation of the following mitigating factors have concluded that the going concern assumption is appropriate for the following 12 months:

- The eDumbe Local Municipality is a municipality within the local government sphere. Currently, in the municipal environment, municipalities within South Africa rely heavily on government's financial assistance through the provision of grants. For the 2020 financial year, the allocated Equitable Share allocation amounts to R79 359 000 and the Financial Management Improvement Grant to R2 867 000.
- No intention by government has been identified that indicates the discontinuing of financial assistance through the provision of government grants. The DoRA and the Division of Revenue Bill, 2019 furthermore disclosed government's proposed allocation of the 2020 and 2021 financial years. This is evidence of government's continued financial support to be provided to the municipality for the following 36 months.
- The municipality has not been placed under administration for the 12 months ending 30 June 2020.